

Registered number: 05629686

NUCLEUS FINANCIAL SERVICES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

NUCLEUS FINANCIAL SERVICES LIMITED

COMPANY INFORMATION

DIRECTORS

A C D Bloch
P R Bradshaw
D R Ferguson
S J Geard
J P Gibson
A J Mathieson
J A A Samuels
L van der Walt
N B Wilson

COMPANY SECRETARY

N C Megaw

REGISTERED NUMBER

05629686

REGISTERED OFFICE

One London Wall
London
United Kingdom
EC2Y 5AB

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
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EH3 8EX

BANKERS

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Aldgate Union
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NUCLEUS FINANCIAL SERVICES LIMITED

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**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

The Directors present their Strategic and Directors' Reports and the audited financial statements and auditors' report for the period ended 31 December 2013 for Nucleus Financial Services Limited ("the Company"). The Company is a wholly owned subsidiary of Nucleus Financial Group Limited ("Nucleus" or "the Group"). The Strategic and Directors' reports incorporate aspects relating to Nucleus and NFS.

STRATEGIC REPORT

The Company's principal activity is the provision of "wrap" investment administration services to selected Financial Advisers in the UK.

The Nucleus wrap allows clients to invest directly, or via various 'tax wrappers' into a broad range of underlying assets, including cash, unit trusts, OEICs, ETFs, investment trusts and other securities.

Nucleus has a particular commitment to transparency and a desire to put the client centre stage. This is delivered via our culture and the influence of our users.

The first year following the implementation of the Retail Distribution Review (RDR) was good for Nucleus but our operating environment is changing rapidly and we must not be complacent. Banning commission for advisers and introducing new rules regarding platform remuneration and product bias were always going to have significant medium and long-term impact on the business models of adviser firms, asset managers, life insurers and platforms and we remain in the early stages of sector reorganisation.

While the early indications are positive for Nucleus, and crucially for our users, we recognise that the full strategic impact remains uncertain and unexpected, and undesirable consequences may yet emerge.

We believe that our operating model and culture are consistent with the FCA's desire to see a more customer-centric model emerge. We welcome the renewed focus on conduct risk and believe this offers us a source of competitive advantage.

While we view the move to clean share classes as a positive development we will incur an operational overhead in moving clients away from rebate-bearing holdings. While our approach requires us to absorb greater operational cost than if we had implemented a blanket switch, regardless of the client impact, we consider our approach to be consistent with the FCA's guidance.

The year closed with £6.2bn of assets under administration, representing an increase of 37% from the end of 2012.

Overall we added £1.7bn of gross inflows (£1.3bn net) and 65 new firms and we now represent 1,590 advisers. Turnover increased by 38% to £18.8m (2012: £13.6m). Operating profit was £0.2m compared to £0.3m in 2012. Underlying costs have increased with assets under administration primarily due to increased charges relating to the provision of platform services by our sister company, Nucleus IFA Services Limited ("NIFAS").

Included in operating profit for 2013 was non-recurring income of £0.2m relating to settlement of a 2012 claim against a supplier and a non-recurring charge of £0.2m in respect of provisioning for potentially unrecoverable tax on distributions relating to the RL360 offshore bond, although we anticipate that this provision will not be fully utilised during 2014.

We believe that the future success of each adviser platform will be significantly defined by the success of its audience and we continue to believe we are very well positioned in this regard. Working only with firms which meet our acceptance criteria and working with Paradigm to reach a wider audience are core to our strategy and mean we continue to operate with, we believe, the lowest sales and marketing costs in the sector.

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

STRATEGIC REPORT (continued)

During 2013 we were voted 2nd in the Aberdeen Platform of the Year awards and retained our best medium-sized platform status from CoreData. We also gained a five star service award from Financial Adviser. We continued to invest heavily in service, functionality and connectivity in order to develop our market position and will continue this during 2014.

2013 saw further margin compression across the platform market. As a result of this we reduced our prices for larger portfolios. Against this we are keen to diversify revenue with the target of at least replacing margin lost to competitive pressures.

Future Developments

In 2014 our focus will be on successful delivery of increased platform development, including new innovative solutions to support our advisers and their clients. NIFAS, the Group company which provides platform technology to the Company, is planning a considerable increase in the level of development spend in 2014 and this should support the Company in its delivery of platform enhancements. In addition, we are seeking to continue to deliver improved levels of customer service, in line with the expectations of our users.

A referendum on Scottish independence is planned for 18 September 2014 and accordingly we have noted the Scottish National Party's white paper and the many issues which will be pertinent to September's vote and, in the event of a 'yes' vote, thereafter. These issues include EU membership and the currency, regulatory, taxation and employment characteristics of an independent Scotland.

In the event of a 'Yes' vote, it is proposed that independence might take effect 18 months after the referendum. It remains impossible to be precise while so many matters remain outstanding. However the board believes that both the Group's corporate structure and our agreements with major partners provide the flexibility we might need to implement swiftly any changes necessary. Any changes made would be with the objective of optimising our post-referendum structure and protecting the interests of our staff, our customers (the significant majority of whom reside in England), and our shareholders. In such a process it may prove helpful that NFS, which is the principal trading company providing wrap platform services and is regulated by the FCA, is registered in England and Wales.

PRINCIPAL RISKS AND UNCERTAINTIES

The following principal risks relate to Nucleus' business and the sector in which it operates. The risks and uncertainties described below are not intended to be exhaustive and are not the only ones that may face the Group. Additional risks and uncertainties not presently known to the Directors or that the Directors currently deem immaterial may also have an adverse effect on the Group's business and financial condition.

Regarding our future shareholding arrangements, we are also exploring how we might allow firms using the platform, who are currently not shareholders in Nucleus, to invest in Nucleus in the future whilst recognising the various commercial and regulatory matters which need to be given due consideration.

The Group operates in a heavily regulated industry

Any change in regulations affecting NFS, or any other member of Nucleus, could have a material adverse effect on Nucleus' ability to carry on its activities, which in turn could have a material adverse effect on the Company's performance and returns to shareholders. There are a number of risks which emanate from Nucleus' regulatory status and the most significant of these, at the date of signing, are as follows:

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

(i) Impact of a breach of FCA regulations

If NFS or any other member of Nucleus, and/or any of its key suppliers, was to commit a serious breach of any of the regulations that apply to it there could be both cost (including, without limitation, fines and/or the cost of being required to take remedial action) and regulatory consequences. These could adversely impact the Group's business, operations and financial condition.

(ii) Requirement to hold sufficient regulatory capital

In addition, as an FCA regulated business, the Company is required to have available to it, and to maintain, a sufficient level of capital as determined by the requirements applicable to a Limited Licence Investment Firm and a non-insured Sipp Operator.

(iii) New and forthcoming regulation

With regard to developments in the platform sector, the implementation of the Retail Distribution Review in January 2013 and the impact this has on platform operators and Nucleus' target audience continues to be a focus as the FCA considers the effectiveness of the industry's adoption of the new requirements.

Finally, the FCA is in consultation with relevant participants with regard to aspects of regulation that impact Nucleus' operations, such as client money, Capital Requirements Directive IV and outsourcing. Any changes to these regulations could have an impact on the operational and regulatory capital requirements that Nucleus is required to adhere to.

Reliance on financial advisers

As with all platform operators in the financial adviser market, the recruitment and retention of financial advisers is an important part of the Group's growth plans. Changes in the regulatory and/or the competitive environment may render the Group's service offerings unattractive to financial advisers and have an adverse effect on the Group's revenues.

Nucleus also provides a platform solution to Paradigm and in 2013, approximately one third of new business arose through this arrangement which is currently fixed until 2016.

Nucleus relies on the following main suppliers:

- Citigroup International plc ("Citi") to which platform administration services are outsourced. In the delivery of its services Citi outsources platform technology to Bravura Solutions Limited;
- Scottish Friendly Assurance Society and Sanlam UK Limited which provide the onshore bonds;
- RL360 which provides the offshore bond;
- Royal Bank of Scotland plc and Bank of Scotland plc who provide operational and corporate banking facilities;
- The company also relies on its Parent for the provision of staff to enable it to provide its services and on NIFAS for the provision of platform development, sales and marketing services.

Access to capital

NFS' Parent is an unlisted private company limited by shares. As an unlisted company the ability of Nucleus to raise additional capital is ordinarily restricted to its existing shareholders. However where additional capital is required in order to meet its regulatory obligations, the Directors are empowered to access other sources of capital outside of the immediate shareholder community.

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Competition risk

There can be no assurance that other companies will not compete more aggressively than at present with the Company. This may be in terms of winning new clients, attracting advisers and sourcing acquisition targets. Competition may come from companies that have greater development, marketing, financial and personnel resources than the Company or its Parent. Competitors may develop products and services that are more effective or economically viable than those developed by NFS.

RESULTS AND KEY PERFORMANCE INDICATORS

The profit for the year after taxation was £241,399 (2012: £295,389). The key performance indicators which the Board use to assess financial performance are:

	2013	2012
	£	£
Assets under administration	6,184,389,936	4,502,079,419
Turnover	18,764,867	13,641,555
Operating profit	193,185	302,403
Profit after taxation	241,399	295,389
Net assets	3,173,533	2,932,134

The Directors also monitor the regulatory capital position of the Company and Group on an ongoing basis.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2013.

Future Developments

Details on future developments are included in the Strategic Report.

RISK MANAGEMENT FRAMEWORK

The Board's objective with regard to risk management is to deliver the Nucleus strategy and business plan supported by a robust, scalable and enterprise-wide governance, risk management and control framework. Consequently, Nucleus operates an approach to risk management in assigning risk management responsibilities which is commonly referred to as the "three lines of defence" model.

The activities within each of the three lines are:

- **First line of defence**

Business lines have responsibility for managing their identified risks through a sound set of processes and controls.

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
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RISK MANAGEMENT FRAMEWORK (continued)

- **Second line of defence**

The risk, compliance and finance functions constitute the majority of the second line of defence and are predominantly oversight functions.

The role of the second line function is to develop and maintain the risk management policies and framework, review the effectiveness of the operation of the risk management practices by operational management and provide support and advice to the business risk owners in reporting risk related information within the Company, including management information on risk matters to the Audit and Risk Committee and the Board.

- **Third line of defence**

Nucleus utilises internal audit as its third line of defence and obtains independent assurance on the effectiveness of its control environment. Internal audit, through a risk based approach, provides assurance to the Audit and Risk Committee and the Board on how effectively risks are assessed and managed. Grant Thornton LLP provide internal audit services.

Findings arising from these audit processes are reported to both the Audit and Risk Committee and the Board.

The Company is required to prepare a Pillar 3 statement. This includes additional information on the firm's capital, risk exposures and risk assessment processes. The Pillar 3 statement is available on the Group's website – www.nucleusfinancial.com

FINANCIAL RISK MANAGEMENT

Included in the Strategic Report above are details of the principal risks and uncertainties that the Company and Group are exposed to. Outlined below are the specific principal financial risks and uncertainties faced by the Company and the Group.

Exposure to securities markets

The Company's income is currently derived from a fully variable basis point fee applied to client assets under administration and, as such, the Company's income is exposed to variations in this fee due to external market movements. Whilst there is some mitigation of this risk within aspects of its cost base, NFS is ultimately exposed to variations in its financial results due to market movements outside of its control.

Liquidity risk

Liquidity risk is the risk that a company will incur losses because it is unable to secure the necessary funds or is forced to obtain funds at higher interest rates than under normal conditions due to a mismatch between the maturities of its assets and liabilities. The Company manages its liquidity risk through an evaluation of its working capital requirements supported by reviewing its cash and cash facilities on an ongoing basis.

GOING CONCERN

With regard to the assessment of the Company's ability to continue as a going concern the Directors evaluate this taking into account:

- the latest five year business plan projections, stressed for significant events that would have a material impact on the profitability, liquidity, solvency and regulatory capital adequacy;
- actual performance to date;
- access to capital to meet operational and regulatory requirements;

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
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GOING CONCERN (continued)

- the financial position of other Group companies on which NFS relies for services;
- known risks and uncertainties with consideration of the impact of these on solvency and liquidity; and
- known and anticipated changes in the regulatory environment impacting platform.

The Directors also consider the robustness of their approach to assessing the Company's ability to continue as a going concern with reference to published guidance from the Financial Reporting Council and also the recent recommendations from the Sharman Inquiry of 2012 which sought to identify lessons for companies and auditors addressing going concern and liquidity risks following the recent credit crisis.

Having regard to these matters, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

A C D Bloch
P R Bradshaw
D R Ferguson
S J Geard
J P Gibson – appointed 6 February 2013
A J Mathieson
J C Moore – resigned 20 January 2013
J A A Samuels
L van der Walt
N B Wilson

COMPANY SECRETARY

The name of the current Company Secretary is listed on page 2. Changes in Company Secretary during the year were as follows:

N C Megaw – appointed on 25 April 2013
A J Mathieson – resigned 8 July 2013

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are Directors at the time when these Strategic and Directors' Reports are approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditors in connection with preparing its report and to establish that the Company's auditors are aware of that information.

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

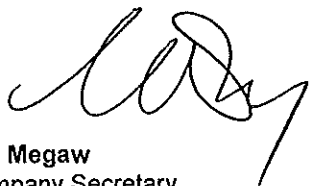
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's corporate website. The Directors understand that uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

The maintenance and integrity of the Group's website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the Board on 3 April 2014 and signed on its behalf.



N C Megaw
Company Secretary

NUCLEUS FINANCIAL SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NUCLEUS FINANCIAL SERVICES LIMITED

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Nucleus Financial Services Limited, comprise:

- the Profit and Loss account for the year ended 31 December 2013;
- the Balance Sheet as at 31 December 2013; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

NUCLEUS FINANCIAL SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NUCLEUS FINANCIAL SERVICES LIMITED

Opinion on matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

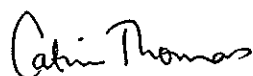
Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

3 April 2014

NUCLEUS FINANCIAL SERVICES LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 £	2012 £
TURNOVER	2	18,764,867	13,641,555
Cost of sales		<u>(14,937,847)</u>	<u>(10,692,648)</u>
GROSS PROFIT		3,827,020	2,948,907
Administrative expenses		(3,828,148)	(2,646,504)
Other operating income		<u>194,313</u>	<u>-</u>
OPERATING PROFIT		193,185	302,403
Interest receivable and similar income		8,661	11,970
Interest payable and similar charges	6	<u>(5,447)</u>	<u>(5,242)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		196,399	309,131
Tax on profit on ordinary activities	7	<u>45,000</u>	<u>(13,742)</u>
PROFIT FOR THE FINANCIAL YEAR	15	<u>241,399</u>	<u>295,389</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 or 2012 other than those included in the Profit and Loss Account above.

There is no difference between the profit on ordinary activities before taxation and the retained profit and their historical cost equivalents.

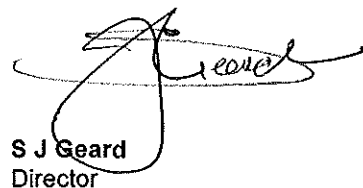
The notes on pages 15 to 22 form part of these financial statements.

NUCLEUS FINANCIAL SERVICES LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2013

	Note	£	2013 £	£	2012 £
FIXED ASSETS					
Investments	8,9		1,001		1,001
CURRENT ASSETS					
Debtors	10	3,356,287		1,916,975	
Cash at bank and in hand		<u>3,814,442</u>		<u>3,706,376</u>	
		7,170,729		5,623,351	
CREDITORS: amounts falling due within one year	11	<u>(3,948,197)</u>		<u>(2,642,218)</u>	
NET CURRENT ASSETS			<u>3,222,532</u>		<u>2,981,133</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			3,223,533		2,982,134
CREDITORS: amounts falling due after more than one year	12		<u>(50,000)</u>		<u>(50,000)</u>
NET ASSETS			<u>3,173,533</u>		<u>2,932,134</u>
CAPITAL AND RESERVES					
Called up share capital	13		2,595,000		2,595,000
Profit and Loss account	14		<u>578,533</u>		<u>337,134</u>
TOTAL SHAREHOLDERS' FUNDS	15		<u>3,173,533</u>		<u>2,932,134</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 3 April 2014.



S J Geard
Director

The notes on pages 15 to 22 form part of these financial statements.

NUCLEUS FINANCIAL SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The Company's financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and the applicable accounting standards in the United Kingdom. The principal accounting policies have been applied consistently other than where new policies have been adopted and are set out below.

1.2 Cash flow

The Company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the Group and whose Group consolidated financial statements being publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.3 Turnover

Turnover comprises fees earned by the Company from the provision of a wrap platform services to UK financial advisers and their clients. Fees are recognised net of Value Added Tax, rebates and discounts and are recorded in the period to which they relate and can be reliably measured. Fees are calculated based on basis point rate applied on a daily basis to assets under administration on the platform.

1.4 Interest income

Interest Income is recognised in the Profit and Loss Account as it is earned.

1.5 Expense recognition

Expenditure incurred by the Company is recognised in the period to which it relates. Any expenses relating to a period that have not yet been invoiced are accrued and expenses paid but which relate to future periods are classified as prepayments within the Balance Sheet.

1.6 Finance costs

Interest expense is recognised in the Profit and Loss Account in the period to which it relates

1.7 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Profit and Loss Account as it excludes items of income or expense that are deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES (continued)

1.7 Taxation (continued)

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the average tax rates expected to be effective at the time the timing differences are expected to reverse, based on tax laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax assets and liabilities are not discounted.

1.8 Pensions

Nucleus operates a defined contribution pension scheme and the pension charge represents the amounts payable by Nucleus to the scheme in respect of the year. The assets of the scheme are held separately from those of Nucleus in an independently administered fund.

1.9 Investments

Investments in subsidiaries are valued at cost less any provision for impairment. Impairment reviews are performed by the Directors when there has been an indication of potential impairment.

1.10 Bad and doubtful debt provision

Full provision is made for debts that are considered to be irrecoverable or unlikely to be recovered within twelve months of the balance sheet date.

2. TURNOVER

The whole of the turnover is attributable to the principal activity of the Company.

All turnover arose within the United Kingdom (2012: *all United Kingdom*).

3. AUDITORS' REMUNERATION

During the year the Company obtained the following services from the Company's auditor:

	2013 £	2012 £
Fees payable to the Company's auditor for the audit of the Company's financial statements	19,440	18,720
Fees payable to the Company's auditor in respect of: Client assets audit:	31,387	36,000
All other services:	<u>7,200</u>	<u>-</u>

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

4. STAFF COSTS

The staff who manage the affairs of the Company are employed by Nucleus Financial Group Limited.

Staff costs, including Directors' remuneration, recharged to the Company were as follows:

	2013 £	2012 £
Wages and salaries	1,985,818	1,221,419
Social security costs	234,680	128,234
Other pension costs	147,248	104,293
	<u>2,367,746</u>	<u>1,453,946</u>

The equivalent average monthly number of employees who manage the affairs of the Company, including the Directors, during the year was as follows:

	2013 Number	2012 Number
Wrap administration services	<u>45</u>	<u>30</u>

5. DIRECTORS' REMUNERATION

	2013 £	2012 £
Aggregated emoluments	<u>282,233</u>	<u>271,019</u>
Company pension contributions to defined contribution pension schemes	<u>17,866</u>	<u>15,443</u>

The Directors are employed by the holding company Nucleus Financial Group Limited.

During the year retirement benefits were accruing to 3 Directors (2012: 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £119,179 (2012: £113,823).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £7,135 (2012: £7,776).

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £	2012 £
Interest payable on overdrafts and bank loans	1,820	552
Interest payable on other loans	2,127	3,190
Preference share dividend payable	1,500	1,500
	<u>5,447</u>	<u>5,242</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2013 £	2012 £
Analysis of tax charge in the year		
UK corporation tax on profits for the year	-	13,742
Adjustments in respect of prior periods	(10,000)	-
Total current tax charge	<u>(10,000)</u>	<u>13,742</u>
Deferred tax:		
Origination and reversal of timing differences	(35,000)	-
Total deferred tax charge	<u>(35,000)</u>	<u>-</u>
Tax on profit on ordinary activities	<u>(45,000)</u>	<u>13,742</u>

	2013 £	2012 £
Provision for deferred tax		
Short term timing differences	(35,000)	-
Movement in provision:		
Provision at start of year	-	-
Deferred tax charged in the Profit and loss account for the year	(35,000)	-
Provision at end of year	<u>(35,000)</u>	<u>-</u>

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

Factors affecting tax charge for the year

	2013 £	2012 £
Profit on ordinary activities before tax	196,399	309,131
Profit on ordinary activities multiplied by small companies' rate of corporation tax in the UK of 20.00% (2012: 20.00%)	39,280	61,826
Effects of:		
Expenses not deductible for tax purposes	10,300	1,140
Group relief not claimed	(84,580)	(49,224)
Adjustments to tax charge in respect of previous periods	(10,000)	-
Other short term timing differences	35,000	-
Current tax charge for the year	<u>(10,000)</u>	<u>13,742</u>

Factors that may affect future tax charges

The potential deferred tax asset which has been fully recognised in accordance with FRS 19 "Deferred tax" comprises:

	2013 £	2012 £
Losses	<u>-</u>	<u>-</u>
Deferred tax asset at beginning of the year	-	-
Deferred tax charge in the Profit and Loss account for the year	<u>(35,000)</u>	<u>-</u>
Deferred tax asset at end of the year	<u>(35,000)</u>	<u>-</u>

8. FIXED ASSET INVESTMENTS

	Shares in Group undertakings £
Cost	
At 1 January 2013	1,001
Additions	<u>-</u>
At 31 December 2013	<u>1,001</u>

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

8. FIXED ASSET INVESTMENTS (continued)

Details of the subsidiary undertakings are shown in note 9 below.

The Directors believe that the carrying values of the investments are supported by underlying net assets.

9. SUBSIDIARY UNDERTAKING

The following were subsidiary undertakings of the Company:

Company name	Percentage Shareholding
NFS (Nominees) Limited	100% ordinary shares
Nucleus Trustee Company Limited	100% ordinary shares

NFS (Nominees) Limited is incorporated in England and Wales. Nucleus Trustee Company Limited is incorporated in Scotland.

NFS has taken advantage of the exemption under section 400 of the Companies Act 2006 whereby an intermediate parent company is not required to prepare group financial statements.

10. DEBTORS

	2013 £	2012 £
Other debtors	1,110,759	149,065
Less: Bad debt provision	(175,000)	-
	<u>935,759</u>	<u>149,065</u>
Amounts due from HMRC	281,246	245,220
Prepayments and accrued income	2,104,282	1,522,690
Deferred tax asset	35,000	-
	<u>3,356,287</u>	<u>1,916,975</u>

Included within Other debtors is a balance of cash prefunded on the wrap platform as required by our client terms and conditions. This fluctuates due to timing.

Bad debt provision for Offshore Bond Withholding Tax reclaim

The RL360 offshore bond wrapper was launched on the Nucleus' platform in 2008. This product is registered in the Isle of Man and, as such, clients invested in this product are entitled to receive interest distributions gross of tax from UK funds. However between 2008 and 2013 some distributions have been paid by fund managers net of UK income tax. Nucleus is currently liaising with fund managers to process reclaims of this tax. However, in the meantime it is Nucleus' intention to apply this tax incorrectly withheld at source to clients' accounts in advance of recovery from fund managers. There is a possibility that some fund managers will not process the reclaim of tax and therefore the debtor due has been impaired to the extent that these reclaims have not been refunded or agreed to be refunded as at the date of signing of these financial statements.

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

11. CREDITORS

Amounts falling due within one year

	2013 £	2012 £
Bank overdraft	45,147	81,839
Trade creditors	1,505,521	905,364
Amounts owed to Group undertakings	1,349,646	718,117
Amounts due to HMRC	245,961	28,882
Taxation and social security	-	13,742
Sundry creditors	2,765	4,987
Accruals	799,157	889,287
	<u>3,948,197</u>	<u>2,642,218</u>

12. CREDITORS

Amounts falling due after more than one year

	2013 £	2012 £
50,000 (2012: 50,000) Preference shares of £1 each	<u>50,000</u>	<u>50,000</u>

Preference share dividends due in the year are included within amounts owed to Group undertakings (note 11). £1,500 share dividends have been declared in respect of 2013 (2012: £1,500).

The holder of preference shares, Nucleus Financial Group Limited, has the right to receive a non-cumulative fixed preferential dividend, calculated at the rate of 3% per annum on the amounts paid up or treated as paid up on such shares.

At the discretion of the Directors, preference shares can be redeemed at their nominal value, or the nominal value treated as paid up on the preference shares, not less than five years and one day after the preference shares were first allotted.

On winding up of the Company, preference shares will rank ahead of all other shares in sharing the Company's assets. The holder of preference shares will be entitled to the amount paid up on the preference share and the amount of any dividend which is due for payment on or after the date the winding up commenced.

The holder of the preference shares is entitled to receive notice of general meetings, and to attend, speak and vote at general meetings in relation to proposed resolutions which affect the rights of preference shareholders.

13. CALLED UP SHARE CAPITAL

	2013 £	2012 £
Allotted, called up and fully paid		
2,595,000 (2012: 2,595,000) Ordinary shares of £1 each	<u>2,595,000</u>	<u>2,595,000</u>

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

14. RESERVES

	Profit and Loss Account £
At 1 January 2013	337,134
Profit for the financial year	<u>241,399</u>
At 31 December 2013	<u>578,533</u>

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2013 £	2012 £
Opening shareholders' funds as previously stated	2,932,134	2,636,745
Profit for the financial year	<u>241,399</u>	<u>295,389</u>
Closing shareholders' funds	<u>3,173,533</u>	<u>2,932,134</u>

16. RELATED PARTY TRANSACTIONS

As a 100% subsidiary of Nucleus Financial Group Limited, the Company is exempt from disclosing transactions with entities that are part of the Group, in accordance with the requirements of Financial Reporting Standard 8 paragraph 3(c).

17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is of Nucleus Financial Group Limited, a company incorporated in England and Wales.

The key shareholders of Nucleus Financial Group Limited are Sanlam UK Limited, a company incorporated in England and Wales and Nucleus IFA Company Limited, a company incorporated in Scotland. There is no one controlling party.

Nucleus Financial Group Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2013. The consolidated financial statements of Nucleus Financial Group Limited can be obtained from Companies House or the Company Secretary at 22 Thistle Street Lane North West, Edinburgh, EH2 1EA or the Group's website www.nucleusfinancial.com